

**REPORT/RECOMMENDATION TO THE BOARD OF SUPERVISORS  
OF SAN BERNARDINO COUNTY, CALIFORNIA  
AND RECORD OF ACTION**

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September 9, 2003

**FROM:** RUDY LOPEZ, Director  
Department of Behavioral Health

**SUBJECT: AGREEMENT WITH PHARMACEUTICAL CARE NETWORK FOR PHARMACY  
BENEFIT MANAGER SERVICES**

**RECOMMENDATION:** Approve agreement with Pharmaceutical Care Network (PCN) to provide Pharmacy Benefit Manager (PBM) services at a total amount not to exceed \$6,800,000 for the period September 10, 2003 through June 30, 2006.

**BACKGROUND INFORMATION:** Approval of this Pharmacy Benefit Manager agreement will expand indigent clients' access to dispensing retail pharmacies while providing the Department of Behavioral Health (DBH) with improved tracking and coordination of prescriptions, enhanced clinical practice management, and a single monthly claim for services. The proposed agreement begins in September 2003 to allow the contractor time for setup and implementation in its network pharmacies and to provide sufficient time to train DBH staff. Dispensation of medications under this agreement is to begin November 10, 2003. The department is also pursuing additional pricing discounts on psychotropic medications dispensed through ARMC's pharmacy, which is part of PCN's existing network. Approval of this contract will provide DBH with access to management information critical to efficient management of prescriptions; collaboration with ARMC will continue in pursuit of options to purchase medication at lower rates available through hospitals. Access to the PCN distribution network will greatly increase patient access to initial doses at pharmacies located in outlying areas, while most refills will be provided by mail from ARMC's pharmacy.

Medications have always been available to clients in the public mental health system. In the past, medication costs were significantly less than today as a percent of treatment expense. As newer, more effective medications were developed, along with an increase in price and population growth, a greater percentage of treatment cost is now spent on medications. In addition, oversight by regulatory agencies increased greatly to insure that medication was properly used in the public mental health systems. State law dictates medication monitoring, which also requires ongoing attention.

Several factors have driven the public mental health system to increase the use of psychotropic medications over the past several years. These include:

1. Increasingly limited financial resources being focused on the more severely and persistently mentally ill, a population that usually requires long term medication in order to prevent potential hospitalization.
2. Increased knowledge of the medical aspect of serious mental illness and the need to use newer, more expensive medications, along with therapeutic interventions in order to achieve better clinical outcomes, and improve clients' quality of life.
3. The development of new medications, referred to as atypicals, which have fewer side effects, provide more specificity in their effects on psychiatric symptoms, and result in better client compliance.

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The San Bernardino County Department of Behavioral Health provides prescriptions to clients who are indigent, who receive medications not reimbursed under the Medi-Cal program or other third party insurance, or who are pending Medi-Cal eligibility for services and medication coverage. Prescriptions are typically given for 30-day periods when clients come in for monthly appointments. On September 24, 2002 the Board approved contracts with six community-based pharmacies throughout the County to dispense prescribed medications to these clients. These contracts were set to expire June 30, 2003. On June 10, 2003 the Board approved amendments to the contracts with the six community-based pharmacies, which extended the terms of those contracts to December 31, 2003.

The total current cost of drugs for DBH clients is approximately \$2,400,000 per fiscal year. Approval of this item will allow DBH to realize cost savings and increased services. Partnership with ARMC offers the potential to reduce drug costs even further. The estimated savings to be realized immediately are estimated as follows:

- \$314,000 annual savings in the average wholesale price of medications purchased.
- \$10,000 annual savings in administrative costs
- \$32,000 annual savings due to drug manufacturer rebate programs.

The increased services available under the proposed PBM contract include:

- A network of 200+ retail pharmacies with increased language translation capabilities and expanded hours of operations. DBH's current network of six pharmacies is part of PCN's network, as is the ARMC pharmacy through which most refills will be provided.
- Uniform contracted rates for drugs.
- Improved tracking and coordination of client eligibility.
- A DBH-specific database for costs, usage, and prescribing patterns for indigent clients.
- Routine, concurrent, and retrospective reports on pharmacies, enrolled clients, and physicians' prescribing practices.
- Patient Assistance Programs with drug manufacturers which provide no cost drugs with minimal dispensing and administrative fees to eligible clients.
- A consolidated monthly claim for administrative and network pharmacies services.
- Automated monthly reports to pursue Medi-Cal reimbursements when indigent clients are determined to be retroactively Medi-Cal eligible.

On October 22, 2002, the Board approved a request for proposals (RFP) and authorized release of the RFP for a PBM program. DBH advertised this RFP in area newspapers and the County Internet site and mailed it to the six pharmacies with which the department currently has agreements. Four agencies submitted proposals. They are as follows:

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<u>Agency Name</u>	<u>Cost per Claim Line</u>	<u>Brand Name Medication Costs (Est. 80%)</u>	<u>Generic Medication Costs (Est. 20%)</u>	<u>Est. Annual Cost without Medications</u>
<b>Pharmaceutical Care Network (PCN)</b>	\$.25 per adjudicated claim* processed	Average Wholesale Price (AWP) minus 14% plus \$2.25 dispensing fee per prescription	Maximum Allowable Cost (MAC) is the lowest of the following plus \$2.50 dispensing fee: AWP minus 14%; Contractor's MAC; Health Care Financing Admin. MAC; Usual and Customary cash price.	**Automation costs 2,838.60 Admin Costs 58,479.25 <b>Total 61,317.85</b> <b>Plus AWP minus 14% for Medications costs</b>
<b>MedImpact</b>	\$.29 per adjudicated claim* processed	AWP minus 14%, plus \$2.25 dispensing fee per prescription	Contractor's Maximum Allowable Cost (MAC) plus \$2.50 dispensing fee	**Automation costs 1,658.66 Admin Costs 59,396.57 <b>Total 61,055.23</b> <b>Plus AWP minus 14% for Medications costs</b>
<b>Pharmacy Services, Inc.</b>	\$.32 per adjudicated claim* processed	AWP minus 14%, plus \$2.85 dispensing fee per prescription	AWP minus 17% plus \$2.85 or MAC plus \$2.85 dispensing fee	**Automation costs N/A Admin Costs 72,697.61 (3%AWP Generic Adj.) (6,901.73) <b>Total 65,795.88</b> <b>Plus AWP minus 14% for Medications costs</b>
<b>Croal's Rexall Drugs</b>	Rated not responsive to RFP; not an established PBM agency.			
*Adjudicated claim is defined as a completed claim transaction processed by contractor. **Automation costs: Enables DBH to retroactively bill MediCal for drug costs (DBH does not currently have this ability) and retrieve data for current and retrospective analysis of clinically based pharmacy information.				

Proposals were evaluated according to the County Purchasing Department's January 2000 publication entitled "Guidelines for Developing a Request For Proposal. The evaluation team included representatives from the Mental Health Advisory Commission, DBH, and the Human Services System (HSS) with expertise directly related to the RFP. Proposals were evaluated on the following criteria: cost containment, information management, client access, and client/provider satisfaction as measured by customer satisfaction surveys.

The initial review of medication costs determined that all three valid responders offered the same price of AWP minus 14% on branded medications when a large pharmacy access is contracted. Because DBH wanted the most client access possible and estimates that over 90% of its prescriptions are brand name medications, there was no price difference among the proposals. The review team then considered generic drug costs and administrative fees. The final and most important considerations were related to the specialty services being offered and each proposer's history and experiences with local mental health systems.

The evaluation team found that the proposal submitted by Pharmaceutical Care Network was the highest ranked proposal because it met and/or exceeded the service requirements of the RFP and was best suited to meet DBH's expectations of a PBM for the following reasons:

1. PCN has more specialized experience with mental health programs, and provided in its proposal a case study from Alameda County Department of Behavioral Health, which demonstrated actual cost savings over a six-year period of time.
2. PCN has a fully developed consumer complaint and response system in operation in other California counties.
3. PCN provided specialty behavioral health management and supportive services not offered by other vendors, including a statewide Drug Therapy Council, and a monthly newsletter.
4. PCN offered performance guarantees with penalties and a guaranteed implementation.

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Once the review of the proposals was completed, the evaluation committee recommended PCN's proposal to the Director of DBH. The Director approved the evaluation committee's recommendation contingent upon negotiation of a more competitive price per claim line. The negotiations were successful and PCN reduced the cost per claim line from \$.36 to \$.25 which was lower than the other proposers.

PCN has provided PBM services to the Inland Empire Health Plan (IEHP). DBH staff has analyzed the rate paid by IEHP; although the proposed DBH contract would impose a slightly higher rate to the County, staff believes that the difference is reasonable in light of the difference in patients served (260,000 by IEHP vs. up to 8,000 designated clientele served by DBH).

**PURSuing ADDITIONAL PRICING DISCOUNTS:**

In order to pursue additional pricing discounts on psychotropic medications, DBH and ARMC are working together to implement a consolidated pharmacy benefits process for indigent clients served through ARMC's pharmacy. PCN will pass on to DBH whatever pricing ARMC pharmacy is able to obtain for medications. ARMC has estimated that this additional pricing discount could be as much as 20%. In addition to pursuing pricing discounts, DBH and ARMC are working together to establish a uniform psychotropic medication formulary which will provide consistency in treatment algorithms as well as cost savings. In order to receive the additional pricing discounts, the following issues are being evaluated by DBH, ARMC, and County Counsel:

- Process to establish DBH physicians as part of ARMC's medical staff
- How DBH's and ARMC's medical records will identify indigent clients' medications
- Process to determine which DBH sites will need to acquire a pharmacy clinic permit
- Coordination of DBH's and ARMC's federal and state cost reports

**REVIEW BY OTHERS:** This agreement was reviewed and approved by County Counsel (Charles Larkin, Deputy County Counsel) on August 7, 2003. This item has been reviewed by the County Administrative Office (Tom De Santis, Deputy Administrative Officer, and Carol Hughes, Administrative Analyst) on August 27, 2003.

**FINANCIAL IMPACT:** Approval of this agreement requires no local cost. The program is 100% funded by state realignment money. This agreement covers all costs associated with providing prescription medications to qualifying clients as well as costs for PBM services. The cost of this agreement is not to exceed \$2,000,000 for FY 03/04, and \$2,400,000 each for 04/05, and 05/06 for a total cost not to exceed \$6,800,000. Adequate appropriations and revenues is included in the Department's Approved Budget for FY03/04 and will be included in the Proposed Budgets for FYs 04/05 and 05/06.

**COST REDUCTION REVIEW:** The County Administrative Office has reviewed this agenda item and recommends approval as it will impose no additional cost to the County. Implementation is expected to enhance service delivery and operational efficiencies.

**SUPERVISORIAL DISTRICT(S):** All

**PRESENTER:** Rudy Lopez, Director  
(909) 387-7024

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